

MEMORANDUM

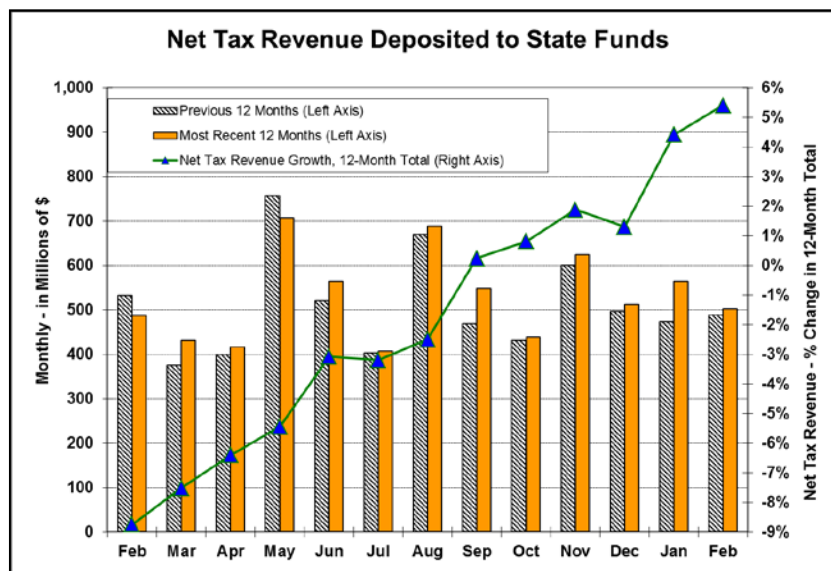
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: March 30, 2011

Twelve-month Total Net Tax Receipts Through February 28, 2011

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending February 2011 with comparisons to the previous twelve months. February 2010 to February 2011 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against



those taxes.

Overview of Current Situation

At \$501.5 million, February 2011 net tax revenue was 2.9% above February 2010. Individual income tax and sales/use tax growth both exceeded 4.5% growth for the month. However, many of the other tax sources were negative. The net income level for February 2011 was below February 2009 and February 2008. At \$6.404 billion, annual revenue is now back at a

level first reached in November 2007 and the total is currently 5.2% below the November 2008 net revenue peak.

Month of February Comparison

February net tax receipts totaled \$501.5 million, an increase of \$14.1 million (2.9%) compared to February 2010. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$7.2 million, 5.6%) – Withholding tax deposits increased 6.6% and estimate payments increased 14.4% for the month.
- Sales/Use Tax (positive \$12.8 million, 4.9%)
 - Road Use Tax Fund use tax/fees for new registrations have now been positive in ten of the past twelve months, with November through February showing significant revenue growth.
 - Gross General Fund sales/use tax receipts increased \$11.2 million while refunds decreased \$0.7 million and school infrastructure refunds increased \$3.3 million.
- Corporate Income Tax (negative \$3.0 million, -21.7%) – Gross corporate income tax receipts decreased \$1.9 million while corporate refunds increased \$1.1 million.
- Fuel Tax (negative \$2.7 million, -7.3%) – A \$0.8 million increase in gross fuel tax deposits was more than offset by a \$3.5 million increase in fuel tax refunds.
- Cigarette and Tobacco Taxes (negative \$0.5 million, -3.0%)
- Gambling Tax (positive \$0.1 million, 0.4%)

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending February 2011, net revenue from all taxes deposited to State funds totaled \$6.404 billion, an increase of \$328.2 million (5.4%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$169.5 million, 6.5%) – Individual income tax revenue annual growth was negative as recently as this past August.
- Sales/Use Tax (positive \$133.3 million, 6.4%) – Like individual income tax receipts, net sales/use tax deposits were negative year-over-year in August 2010.
- Corporate Income Tax (positive \$15.7 million, 7.4%) – Over the past 12 months, gross corporate tax receipts increased \$7.4 million, while corporate tax refunds decreased \$8.3 million.
- Fuel Tax (positive \$0.1 million, 0.0%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 3.7% while taxable diesel sales increased 6.4%. Although up year-over-year, taxable diesel sales over the most recent 12-month period are still 4.9% lower than the March 2008 peak sales level.
- Gambling Tax (negative \$5.6 million, -2.0%) – According to Racing and Gaming Commission statistics, seven of Iowa's seventeen casino/track locations reported negative

annual adjusted gross revenue (AGR) growth for the 12-month period ending February 2011. The combined AGR growth for the 17 facilities was negative 0.5% over the period and annual AGR growth has not been positive since May 2009.

- Cigarette and Tobacco Tax (positive \$4.4 million, 2.0%)
- Insurance Premium Tax (positive \$18.8 million, 23.8%) – The increase is likely the result of fewer redemptions of tax credits compared to last year.

Tax Spotlight – Real Estate Transfer Tax

The transfer of real estate is taxed under the authority of Iowa Code Chapter 428A. The tax was first effective July 1965, and the current tax rate was effective beginning July 1991. The tax rate is \$0.80 per \$500, including any fractional part of \$500, of consideration paid for real property transferred.

The real estate transfer tax is payable when the instrument conveying the real property is presented for recording. The tax payment is noted on the instrument (usually a deed) of transfer at the time the instrument is recorded. The county recorder must file tax returns with the State Treasurer by the 10th day of each month for tax collected during the preceding month.

The county retains 17.25% of the real estate transfer tax collected. Of the remaining 82.75%, 90.00% is deposited in the State General Fund, 5.00% goes to the Housing Trust Fund, and 5.00% goes to the Shelter Assistance Fund. The real estate transfer tax dollars reflected in this report do not include the portion retained by counties. For the twelve-months ending February 2011, the State collected \$13.9 million from the real estate transfer tax, with \$11.8 million of that amount deposited to the State General Fund and the remainder to two housing and shelter assistance funds.

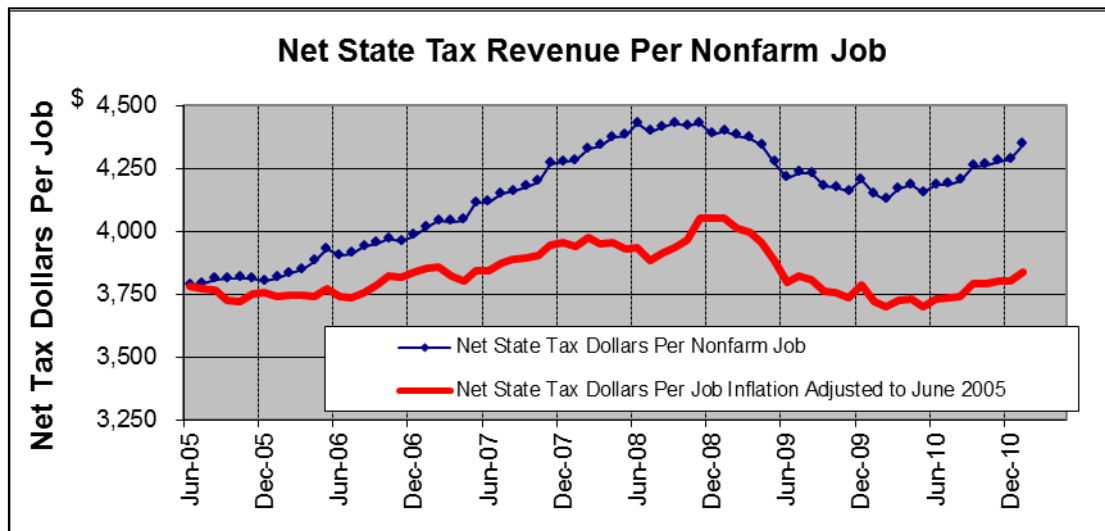
During the 2008 Legislative Session, enactment of SF 2432 (Infrastructure and Capital Projects Appropriations Act) created and added the Housing Trust Fund to the distribution formula. Beginning in FY 2010, the General Fund portion of the Real Estate Transfer Tax percentage will be reduced five percentage points annually until FY 2015 when the percent deposited will be 65.0%. The Housing Trust Fund will receive the Real Estate Transfer Tax amount reduced from the General Fund. The distribution to the Shelter Assistance Fund will not be impacted.

The Shelter Assistance Fund is administered by the Department of Economic Development (see Iowa Code Section 15.349). Money in the Fund may be used for rehabilitation, expansion, or operating costs of group home shelters for the homeless and domestic violence shelters. Of the moneys in the Fund, at least \$546,000 must be spent annually on homeless shelter projects. The Housing Trust Fund is administered by the Iowa Finance Authority (Iowa Code Section 16.181). Money in the Fund is to be used for the development and preservation of affordable housing for low-income residents within the State.

Tax Revenue and Employment

The average reading for Iowa nonfarm employment over the 12 months ending January 2011 is 1,470,200 and net State tax receipts over the same twelve months totaled \$6.390 billion, or \$4,346 per nonfarm job. This is \$561 (14.8%) higher than the per-job average for the twelve months ending July 2005. Over that same time period, inflation (CPI-U) increased 13.2%. Therefore, tax revenue per job has exceeded the rate of inflation since July 2005 by about 0.3%

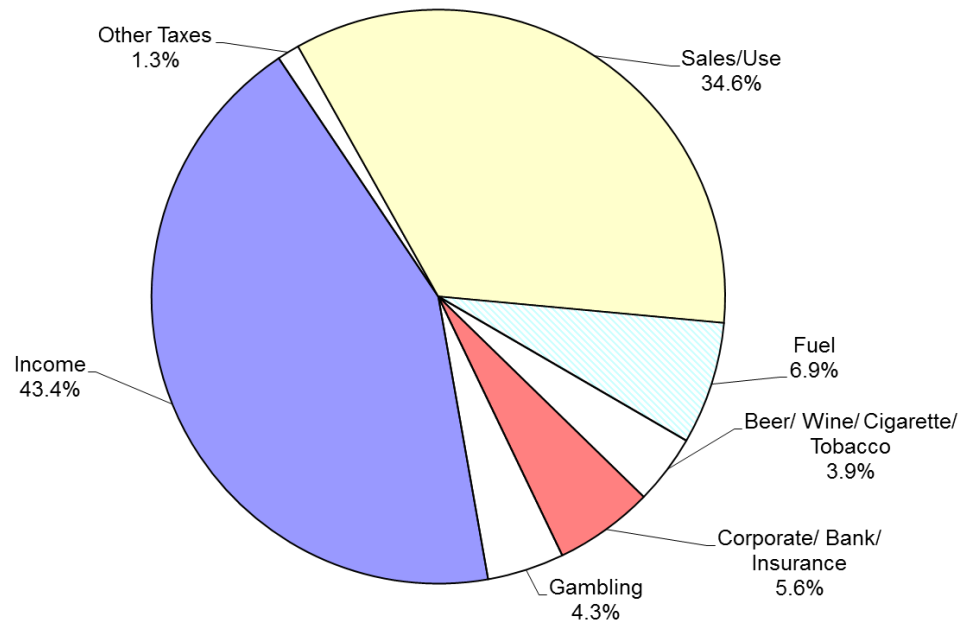
per year. The following chart provides a historical perspective of tax collections per nonfarm job and inflation-adjusted tax collections per job.



Net State Tax Revenue - Twelve Months Ending February 2011

Net Revenue = \$6.404 Billion

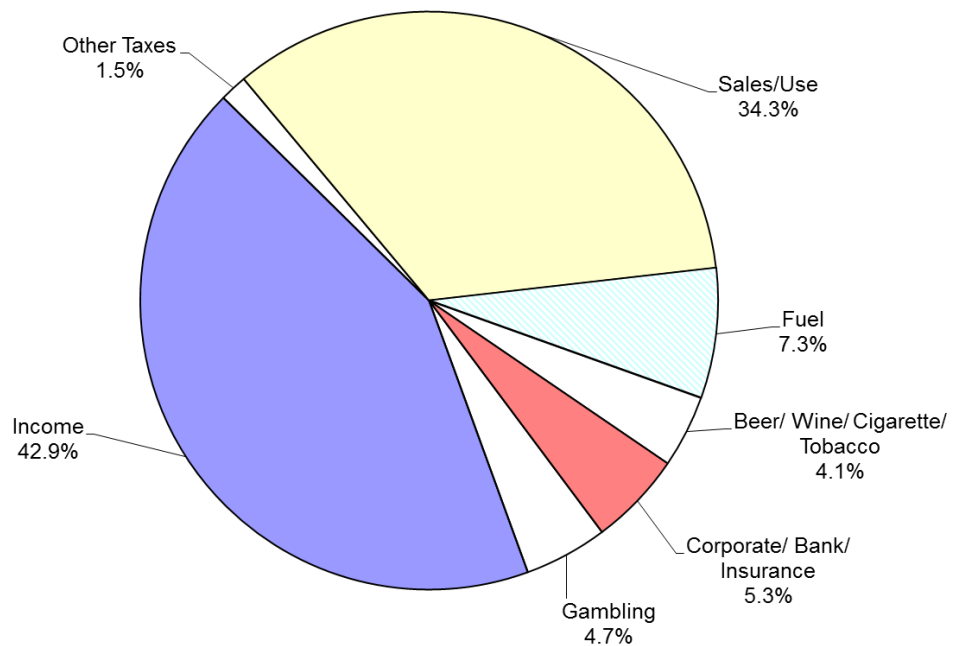
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending February 2010

Net Revenue = \$6.076 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of February 2010	Month of February 2011	February \$ Change	February % Change
Banking	\$ 26.9	\$ 31.2	\$ 4.3	16.0%	\$ - 0.5	\$ 0.5	\$ 1.0	--
Beer & Wine	21.1	21.2	0.1	0.5%	1.3	1.2	- 0.1	-7.7%
Cigarette & Tobacco	225.4	229.8	4.4	2.0%	16.9	16.4	- 0.5	-3.0%
Corporate Income	213.6	229.3	15.7	7.4%	13.8	10.8	- 3.0	-21.7%
Fuel	442.0	442.1	0.1	0.0%	37.2	34.5	- 2.7	-7.3%
Gambling	283.3	277.7	- 5.6	-2.0%	23.7	23.8	0.1	0.4%
Individual Income	2,609.0	2,778.5	169.5	6.5%	129.2	136.4	7.2	5.6%
Inheritance	69.5	61.8	- 7.7	-11.1%	4.3	4.0	- 0.3	-7.0%
Insurance	78.9	97.7	18.8	23.8%	2.0	1.6	- 0.4	-20.0%
Other Taxes	10.1	4.7	- 5.4	-53.5%	0.0	- 0.2	- 0.2	--
Real Estate Transfer	13.2	13.9	0.7	5.3%	0.7	0.9	0.2	28.6%
Sales/Use	2,082.8	2,216.1	133.3	6.4%	258.8	271.6	12.8	4.9%
Total Net Taxes	<u>\$ 6,075.8</u>	<u>\$ 6,404.0</u>	<u>\$ 328.2</u>	5.4%	<u>\$ 487.4</u>	<u>\$ 501.5</u>	<u>\$ 14.1</u>	2.9%
Gross Tax & Refunds								
Gross Tax	\$ 7,365.2	\$ 7,627.1	\$ 261.9	3.6%	\$ 673.5	\$ 702.2	\$ 28.7	4.3%
Tax Refunds	\$ - 1,289.3	\$ - 1,223.0	\$ 66.3	-5.1%	\$ - 186.1	\$ - 200.7	\$ - 14.6	7.8%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,147.2	\$ 5,457.1	\$ 309.9	6.0%	\$ 407.8	\$ 423.7	\$ 15.9	3.9%
Road Use Tax Fund	\$ 693.5	\$ 717.6	\$ 24.1	3.5%	\$ 55.7	\$ 57.2	\$ 1.5	2.7%
Non-GF Gambling	\$ 215.7	\$ 210.6	\$ - 5.1	-2.4%	\$ 23.5	\$ 20.0	\$ - 3.5	-14.9%
Other State Funds	\$ 19.5	\$ 18.8	\$ - 0.7	-3.6%	\$ 0.4	\$ 0.6	\$ 0.2	50.0%
Local Option Taxes *	\$ 786.7	\$ 789.9	\$ 3.2	0.4%	\$ 62.2	\$ 68.2	\$ 6.0	9.6%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited in the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, the Vision Iowa Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is now referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.